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BEFORE THE ARIZONA CORPORATION

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COMMISSIONERS

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JEFF HATCH-MILLER – Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE

AZ CORP COMMISSION
DOCUMENT CONTROL

In the Matter of the Application of
Arizona-American Water Company for
Approvals Associated with a Transaction
with the Maricopa County Municipal
Water Conservation District Number One

DOCKET NO. W-01303A-05-0718

**JOINT NOTICE OF
FILING DIRECT TESTIMONY**

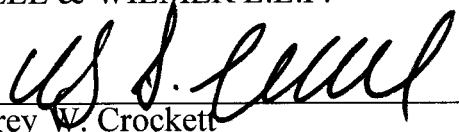
CHI Construction Company, Courtland Homes, Inc., Taylor Woodrow/Arizona,
Inc., through undersigned counsel, hereby respectively file their Direct Testimony for the
following witnesses in the above-captioned matter:

Brett Hopper
John Wittrock
Justin Iannacone

DATED this 24th day of January, 2007.

SNELL & WILMER L.L.P.

By


Jeffrey W. Crockett
Bradley S. Carroll
Snell & Wilmer LLP
400 East Van Buren
Phoenix AZ 85004-2202

Arizona Corporation Commission
DOCKETED
JAN 24 2007

DOCKETED BY

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ORIGINAL and thirteen (13) copies
filed with Docket Control January 24, 2007.

COPY of the foregoing hand-delivered
January 24, 2007, to:

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Administrative Law Judge
Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix AZ 85007

Christopher Kempley, Chief Counsel
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Phoenix AZ 85007

Ernest G. Johnson, Director
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Arizona Corporation Commission
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER – Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE

In the Matter of the Application of Arizona Water
Company for Approvals Associated with a
Transaction with the Maricopa County Municipal
Water Conservation District Number One

DOCKET NO. W-01303A-05-0718

**PRE-FILED DIRECT TESTIMONY
OF BRETT HOPPER
ON BEHALF OF CHI CONSTRUCTION COMPANY
JANUARY 24, 2006**

1 **Q. PLEASE STATE YOUR NAME AND EMPLOYER.**

2 A. My name is Brett Hopper. I am employed as Vice President of Continental
3 Homes, Inc., doing business as D.R. Horton-Continental Series, one of the family
4 of companies owned and/or controlled by D.R. Horton, Inc. ("D.R. Horton"). I
5 am also Vice President of CHI Construction Company ("CHI"), the land
6 acquisition and construction entity for DR Horton-Continental Series in Arizona.

7 **Q. PLEASE STATE YOUR BUSINESS ADDRESS.**

8 A. My business address is 16430 North Scottsdale Road, Suite 200, Scottsdale,
9 Arizona, 85254.

10 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
11 **WORK EXPERIENCE.**

12 A. I earned a Bachelor's Degree in Business Management and a Juris Doctorate
13 Degree from Brigham Young University. I was a real estate attorney at Jennings,
14 Strouss and Salmon as well as Fennemore Craig before joining D.R. Horton,
15 where I have been responsible for land acquisition and entitlement for over eight
16 years.

17 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?**

18 A. I am testifying on behalf of CHI.

19 **Q. ARE YOU AUTHORIZED TO TESTIFY ON BEHALF OF CHI?**

20 A. Yes. I am authorized as an officer of CHI to testify on its behalf.

21 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE ARIZONA**
22 **CORPORATION COMMISSION ("COMMISSION")?**

23 A. No. This is my first time.

24 **Q. HAS CHI BEEN GRANTED INTERVENOR STATUS IN THIS CASE?**

25 A. Yes. The Commission granted CHI's Application for Intervention on December 13,
26 2006.

1 **Q. PLEASE DESCRIBE CHI AND ITS BUSINESS.**

2 A. D.R. Horton is the largest homebuilder in the United States, based on annual sales
3 and closings. D.R. Horton is a Fortune 200 company which is publicly traded on
4 the New York Stock Exchange. Donald R. Horton began the construction
5 business in 1978 in the Dallas-Fort Worth metroplex. In 1987, D.R. Horton
6 began expanding its operations by seeking out the nation's most active
7 homebuilding markets. Today, the company has geographically diversified into
8 approximately 83 markets and 27 states across the United States. In Arizona, the
9 D.R. Horton companies are building homes in Buckeye, Casa Grande, Chandler,
10 Coolidge, Gilbert, Glendale, Goodyear, Maricopa, Mesa, Queen Creek, Phoenix,
11 Scottsdale, Sun City, Surprise, Tempe, Tucson and Vail, as well as
12 unincorporated areas in Maricopa and Pinal Counties.

13 **Q. WHAT IS THE RELATIONSHIP BETWEEN CHI AND D.R. HORTON?**

14 A. CHI is a wholly-owned subsidiary of D.R. Horton. CHI acquires, entitles and
15 develops land for the construction of single family homes which are marketed and
16 sold by its D.R. Horton-Continental Series affiliate.

17 **Q. WHY HAS CHI INTERVENED IN THIS PROCEEDING?**

18 A. CHI is currently developing a master-planned community known as Sarah Ann Ranch in
19 Surprise, Arizona. CHI's portion of the project is approximately 290 acres and includes
20 838 lots. Sarah Ann Ranch is located in the Certificate of Convenience and Necessity
21 ("CC&N") of Arizona-American Water Company, Inc.'s ("Arizona-American") Agua
22 Fria Water District and CHI has entered into agreements with Arizona-American with
23 respect to the provision of water service to Sarah Ann Ranch. CHI has already spent
24 approximately \$5.9 million on onsite water facilities, offsite water facilities, and hook-
25 up fees, and expects to spend an additional approximately \$1.3 million related to wet
26 water development to provide water service to our 838 lots in Sarah Ann Ranch. CHI's

1 total estimated cost to provide water service to this development is \$7.2 million, or
2 approximately \$8,592 per lot. Therefore, CHI is directly and substantially impacted by
3 the proposed increase in the water facility hook-up fees ("Hook-Up Fees").

4 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
5 **PROCEEDING?**

6 A. Given that CHI is directly and substantially impacted by the issues that have been raised
7 in this proceeding, the purpose of my direct testimony is to set forth CHI's position with
8 respect to the treatment of Hook-Up Fees that have already been paid to Arizona-
9 American.

10 **Q. WHAT ARE THE ISSUES THAT YOU WILL DISCUSS IN YOUR**
11 **TESTIMONY?**

12 A. The only issue that I will address herein relates the treatment of Hook-Up Fees that have
13 already been paid to Arizona-American.

14 **Q. PLEASE DISCUSS CHI'S POSITION REGARDING THE PROPOSED HOOK-**
15 **UP FEES.**

16 A. CHI has already paid to Arizona-American \$1,717,900 for Hook-Up Fees pursuant to
17 the existing Commission-approved Arizona-American tariff. Additionally, CHI has
18 spent over \$4.1 million towards the construction of other back-bone infrastructure and
19 wet water development necessary for water service to Sarah Ann Ranch that will also
20 provide regional benefits to Arizona-American.

21 CHI does not object to the recommended increases in the Hook-Up Fees set forth
22 in the October 27, 2006 Staff Report so long as the final order of the Commission
23 expressly states that to the extent Arizona-American has received payment for Hook-Up
24 Fees under the existing tariff, if and when a new tariff becomes effective, Arizona-
25 American may not charge the difference between the existing Hook-Up Fee and the new
26 Hook-Up Fee as a condition of receiving service, regardless of whether Arizona-

1 American has provided a meter.¹ Further, Arizona-American should be precluded from
2 unilaterally refunding Hook-Up Fees paid by an applicant for water service under the
3 existing tariff in order to later charge the higher Hook-Up Fees under the new tariff.

4 **Q. HAS ARIZONA-AMERICAN RESPONDED TO THIS POSITION?**

5 A. Yes. On November 6, 2006, CHI filed comments in this docket that set forth this
6 position. On November 13, 2006, Arizona-American filed a response indicating that it
7 did not object to inclusion of express language in the final order with regard to this issue.

8 **Q. HAS ANY OTHER PARTY IN THIS PROCEEDING EXPRESSED AN OPINION**
9 **ON THIS ISSUE?**

10 A. Yes. Courtland Homes Inc., Taylor Woodrow/Arizona, Inc. and Trend Homes, Inc. have
11 also filed comments and testimony in this docket essentially requesting that the same
12 clarification regarding the pre-payment of Hook-Up Fees be included in any final order
13 of the Commission.

14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 A. Yes, thank you.
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¹ Although CHI has already paid to Arizona-American its Hook-Up Fees, Arizona-American has not as
26 yet "set" all of the water meters.

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 JEFF HATCH-MILLER – Chairman
4 WILLIAM A. MUNDELL
5 MIKE GLEASON
6 KRISTIN K. MAYES
7 GARY PIERCE

8 In the Matter of the Application of Arizona
9 Water Company for Approvals Associated with
10 a Transaction with the Maricopa County
11 Municipal Water Conservation District Number
12 One

DOCKET NO. W-01303A-05-0718

13
14
15 **PRE-FILED DIRECT TESTIMONY**
16 **OF JOHN WITTROCK**
17 **ON BEHALF OF INTERVENOR COURTLAND HOMES, INC.**
18 **JANUARY 24, 2006**
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1 **Q. PLEASE STATE YOUR NAME AND EMPLOYER.**

2 A. My name is John Wittrock. I am President of Courtland Land, LLC., the real
3 estate arm of Courtland Homes, Inc., an Arizona corporation.

4 **Q. PLEASE STATE YOUR BUSINESS ADDRESS.**

5 A. My business address is 5333 North 7th Street, Suite 300, Phoenix, Arizona, 85014.

6 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
7 **WORK EXPERIENCE.**

8 A. I am a graduate of the University of Oklahoma. I have previously worked for
9 large homebuilders such as UDC Homes and Shea Homes before becoming
10 President of Courtland Land, Inc.

11 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?**

12 A. I am testifying on behalf of Courtland Homes, Inc. ("Courtland").

13 **Q. ARE YOU AUTHORIZED TO TESTIFY ON BEHALF OF COURTLAND?**

14 A. Yes. I am authorized as an officer of Courtland to testify on its behalf.

15 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE ARIZONA**
16 **CORPORATION COMMISSION ("COMMISSION")?**

17 A. No. This is my first time.

18 **Q. HAS COURTLAND BEEN GRANTED INTERVENOR STATUS IN THIS**
19 **CASE?**

20 A. Yes. The Commission granted Courtland's Application for Intervention on
21 December 13, 2006.

22 **Q. PLEASE DESCRIBE COURTLAND AND ITS BUSINESS.**

23 A. Courtland is a private homebuilder which has been building homes in the valley
24 since 1983. Courtland builds approximately 400 to 500 homes per year.

25 **Q. WHY HAS COURTLAND INTERVENED IN THIS PROCEEDING?**

26 A. Courtland is currently developing a master-planned community known as the

1 Greer Ranch North Development ("Greer Ranch") which has approximately
2 280 acres and contains 878 lots. Greer Ranch is located in the Certificate of
3 Convenience and Necessity ("CC&N") of Arizona-American Water Company,
4 Inc.'s ("Arizona-American") Agua Fria Water District and has entered into
5 agreements with Arizona-American with respect to the provision of water service
6 to Greer Ranch. Additionally, Courtland is looking into the potential
7 development of other master planned communities in the Agua Fria District and
8 will be dependent upon Arizona-American to provide water service. Courtland
9 has already spent \$5 million on onsite water facilities, offsite backbone
10 infrastructure, and hook up fees and expects to spend an additional approximately
11 \$1.5 million related to wet water development to provide water service to our 878
12 lots in Greer Ranch. Courtland's estimated cost in providing water to this
13 development is \$6.5 million, or roughly \$7,400 per lot. Therefore, Courtland is
14 directly and substantially impacted by the proposed increase in the water facility
15 hook-up fees ("Hook-Up Fees"), as well by the other issues that have
16 subsequently been raised in this proceeding.

17 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
18 **PROCEEDING?**

19 A. Given that Courtland is directly and substantially impacted by the issues that have
20 been raised in this proceeding, the purpose of my direct testimony is to set forth
21 Courtland's position with respect to some of those issues for the Commission to
22 take into consideration in determining this matter.

23 **Q. WHAT ARE THE ISSUES THAT YOU WILL DISCUSS IN YOUR**
24 **TESTIMONY?**

25 A. The issues that I will discuss herein are as follows:

- 26 1. Hook-Up Fees that have already been paid under Arizona-

1 American's existing tariff.

2 2. The need for the construction of a surface water treatment plant
3 ("Plant") and the provision of assured water supply during construction which can
4 also offset the cost of the higher Hook-Up Fees.

5 3. The possibility of a moratorium by Arizona-American if there is a
6 delay in the construction of the Plant.

7 **Q. PLEASE DISCUSS COURTLAND'S POSITION REGARDING THE**
8 **PROPOSED HOOK-UP FEES.**

9 A. Courtland has already paid to Arizona-American \$1,009,700 for Hook-Up Fees
10 pursuant to the existing Commission-approved Arizona-American tariff.
11 Additionally, Courtland has spent over \$5 million towards the construction of
12 other back-bone infrastructure and wet water development necessary for water
13 service to Greer Ranch that will also provide regional benefits to Arizona-
14 American.

15 Courtland does not object to the recommended increases in the Hook-Up
16 Fees set forth in the October 27, 2006 Staff Report so long as the final order of
17 the Commission expressly states that to the extent Arizona-American has received
18 payment for Hook-Up Fees under the existing tariff, if and when a new tariff
19 becomes effective, Arizona-American may not charge the difference between the
20 existing Hook-Up Fee and the new Hook-Up Fee as a condition of receiving
21 service, regardless of whether Arizona-American has provided a meter.¹ Further,
22 Arizona-American should be precluded from unilaterally refunding Hook-Up
23 Fees paid by an applicant for water service under the existing tariff in order to
24 later charge the higher Hook-Up Fees under the new tariff.

25
26 ¹ Although Courtland has already paid to Arizona-American its Hook-Up Fees, Arizona-American has
not as yet "set" meters.

1 **Q. HAS ARIZONA-AMERICAN RESPONDED TO THIS POSITION?**

2 A. Yes. On November 6, 2006, Courtland filed comments in this docket that set
3 forth this position. On November 13, 2006, Arizona-American filed a response
4 indicating that it did not object to inclusion of express language in the final order
5 with regard to this issue.

6 **Q. HAS ANY OTHER PARTY IN THIS PROCEEDING EXPRESSED AN**
7 **OPINION ON THIS ISSUE?**

8 A. Yes. CHI Construction Company, Taylor Woodrow/Arizona, Inc. and Trend
9 Homes, Inc. have also filed comments and testimony in this docket essentially
10 requesting that the same clarification regarding the pre-payment of Hook-Up Fees
11 be included in any final order of the Commission.

12 **Q. IN ITS FILED COMMENTS, MARICOPA WATER DISTRICT ("MWD")**
13 **HAS ARGUED THAT IF IT BUILDS THE PLANT, IT WOULD NOT BE**
14 **NECESSARY FOR ARIZONA-AMERICAN TO CHARGE THE HIGHER**
15 **HOOK-UP FEES. WHAT IS COURTLAND'S POSITION ON THIS?**

16 A. Courtland is not taking a position on which entity should build the Plant because
17 the plant construction only benefits future development by relieving future
18 developers of the cost of developing potable wet water. Current developments
19 such as Greer Ranch have been required by agreements with Arizona-American
20 to provide for potable water to serve their respective developments.

21 **Q. IF THE COMMISSION WAS TO GRANT ARIZONA-AMERICAN'S**
22 **APPLICATION AND ALLOW THE HIGHER HOOK-UP FEES IN**
23 **ORDER TO FUND CONSTRUCTION OF THE PLANT, WHAT ARE**
24 **YOUR RECOMMENDATIONS?**

25 A. If the Commission determines that Arizona-American should build the plant and
26 use the Hook-Up Fees as essentially the financing vehicle to do this, the

1 Commission should: 1) require Arizona-American to construct the Plant as
2 expeditiously as possible so as to address the anticipated future water needs of its
3 customers in the Agua Fria Water District and to monitor such construction
4 through Commission-mandated compliance filings; 2) carefully monitor the
5 collection of the increased Hook-Up Fees to ensure that Arizona-American does
6 not collect such increased fees any longer than is necessary to finance
7 construction of the Plant; 3) make any necessary adjustments to Arizona-
8 American's rates and charges in subsequent filed rate-cases; 4) to the extent that
9 an assured water supply has been procured either through an interim water supply
10 agreement or developer provided wells, order Arizona-American to set meters
11 upon customer request; and 5) to the extent Arizona-American can enter into an
12 interim water supply agreement with MWD, order Arizona-American to suspend
13 its requirement that developers must also spend additional money to drill wells as
14 a condition of receiving service.

15 **Q. WOULD YOU PLEASE ELABORATE ON THIS LAST POINT?**

16 **A.** Yes. Currently, Arizona-American does not have an adequate supply of water in
17 the Agua Fria District to meet future customer demand for new developments
18 which have not provided potable water supply facilities to Arizona-American.
19 This is the primary reason it is seeking authority to build the Plant so it can use
20 surface water to meet future customer demand. In the meantime, because of the
21 lack of water in the Agua Fria District, Arizona-American has imposed what is
22 essentially a moratorium on new development unless the developer is willing to
23 bring the wet water to Arizona-American by drilling wells that meet potable water
24 standards. Developers have had no choice but to bear these additional costs if
25 they want to have water for their projects. These costs are in addition to other
26 backbone infrastructure and Hook-Fees that developers are already obligated to

1 pay. I believe that if Arizona-American is going to charge the higher Hook-Up
2 Fees in order to build the Plant which will provide a water supply for the future,
3 and Arizona-American has secured an interim source of water while the Plant is
4 under construction, there would not be a need for these additional wells and
5 developers should not have to bear the cost of drilling wells to provide a water
6 source.

7 **Q. IF THE COMMISSION WAS TO DENY ARIZONA-AMERICAN'S**
8 **APPLICATION IN FAVOR OF MWD BUILDING THE PLANT, WHAT**
9 **ARE YOUR RECOMMENDATIONS?**

10 A. If the Commission determines that Arizona-American should not build the Plant
11 and that MWD should, since the Commission does not have jurisdiction over
12 MWD, the Commission should condition its decision to deny Arizona-
13 American's application on MWD's agreement to enter into interim water supply
14 agreement(s) with Arizona-American on an as-needed basis for individual project
15 needs as technically possible and commercially reasonable, for the period of time
16 from Arizona-American's proposed time to have the American plant online
17 (2009) until MWD is able to bring the MWD Plant on line. Moreover, should
18 MWD subsequently not build the Plant, it would still be obligated pursuant to
19 these agreements to continue to supply water until such time that Arizona-
20 American (or some other entity) builds the Plant.

21 **Q. WITH RESPECT TO YOUR SUGGESTION THAT ARIZONA-**
22 **AMERICAN BE ORDERED TO ENTER INTO AN INTERIM WATER**
23 **SUPPLY AGREEMENT AND SET METERS, HASN'T COURTLAND**
24 **RECENTLY ENTERED INTO SUCH AN AGREEMENT WITH**
25 **ARIZONA-AMERICAN?**

26 A. Yes. And we very much appreciate Arizona-American's and MWD's willingness

1 to do this. However, at this point in time, this is a five year agreement whereby
2 we are still obligated by the end of the five years to provide potable water wells to
3 Arizona-American.

4 **Q. WOULD YOU PLEASE COMMENT ON THE ISSUE OF A**
5 **THREATENED MORATORIUM IN THE AGUA FRIA DISTRICT IF**
6 **THERE IS A DELAY IN THE CONSTRUCTION OF THE PLANT?**

7 A. Yes. First, as I stated above, given Arizona-American's constrained water
8 resources, it has, in effect, already imposed a moratorium on water service for
9 new developments if the developer does not provide the wet water to Arizona-
10 American at its expense. As discussed more fully above, Courtland believes that
11 it is within Arizona-American and MWD's power to remedy this problem and to
12 remove this threat for future projects by simply entering into an interim bulk sale
13 water agreement on a project by project basis whereby MWD will supply
14 Arizona-American potable water until such time that the Plant is built.

15 If however, the parties are unable or unwilling to do this, Arizona-
16 American should not be permitted to institute a moratorium with respect to new
17 water service for a customer who has supplied the water source to Arizona-
18 American and otherwise pays all applicable tariffs. Moreover, to the extent a
19 developer provides the water source to Arizona-American, Arizona-American
20 should be required to use such source to supply the needs of that development
21 before being permitted to use such supply for other customers.

22 **Q. WHAT WOULD BE THE IMPACT IF A MORATORIUM WAS**
23 **INSTITUTED?**

24 A. If a new service moratorium was imposed in the Agua Fria District, it would have
25 a chilling effect on development until such time as the problem was resolved.
26 Moreover, even after the moratorium was lifted, the negative implication of such

1 a moratorium would linger well beyond that point. There are millions of dollars
2 that have already been invested to develop areas within the Agua Fria District and
3 a moratorium would impact existing development activity and contractual
4 relationships, as well as the money that has already been invested and is planned
5 to be invested in the future in this area.

6 **Q. DO YOU HAVE ANY CLOSING REMARKS?**

7 A. Yes. It is important to understand that that in reality, there is no "water shortage"
8 in the Agua Fria District as there is an adequate water supply. Arizona-American
9 holds the CC&N to provide water to its utility customers. However, Arizona-
10 American does not currently have the necessary water resources to meet the
11 future demand of its future customers in this area. To address this deficiency in
12 current capacity, it has required developers to provide it with new wells. Yet,
13 Arizona-American is seeking authority from this Commission to build the Plant in
14 order to utilize surface water as an additional water source to meet future demand.
15 MWD has wells that can provide potable water. However, MWD is not
16 authorized to provide public utility water service within Arizona-American's
17 certificated area. Therefore, what we have here is one party that is obligated to
18 provide utility water service to the public but has a current shortage of wells, and
19 another party that has the wells and water resources but cannot directly use those
20 resources to supply potable water to the public.

21 If Arizona-American and MWD would work together to address the water
22 issue in the Agua Fria District, there would be sufficient water to meet demand
23 while the Plant is being constructed. Moreover, developers would not have to
24 bear the redundant expense of being required to drill additional wells for Arizona-
25 American while also paying higher Hook-Up Fees to finance construction of the
26 Plant. Courtland, therefore, encourages the Commission to do whatever it can

1 through this proceeding to facilitate a resolution of this problem.

2 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

3 A. Yes, thank you.

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER – Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE

In the Matter of the Application of Arizona
Water Company for Approvals Associated with
a Transaction with the Maricopa County
Municipal Water Conservation District Number
One

DOCKET NO. W-01303A-05-0718

**PRE-FILED DIRECT TESTIMONY
OF JUSTIN IANNACONE
ON BEHALF OF TAYLOR WOODROW/ARIZONA, INC.
JANUARY 24, 2006**

1 **Q. PLEASE STATE YOUR NAME AND EMPLOYER.**

2 A. My name is Justin Iannacone. I am Vice President of Land Acquisitions for
3 Taylor Woodrow/Arizona, Inc., an Arizona corporation ("Taylor Woodrow").

4 **Q. PLEASE STATE YOUR BUSINESS ADDRESS.**

5 A. My business address is 6720 North Scottsdale Road, Suite 390, Scottsdale,
6 Arizona, 85253.

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
8 **WORK EXPERIENCE.**

9 A. I have a Bachelor of Science in Business Administration with a major in Finance
10 and Accounting from the University of Arizona. I am also a Certified Public
11 Account and hold an Arizona Real Estate License. Prior to joining Taylor
12 Woodrow's Arizona Division, I was a senior supervising auditor for KPMG LLP.

13 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?**

14 A. I am testifying on behalf of Taylor Woodrow.

15 **Q. ARE YOU AUTHORIZED TO TESTIFY ON BEHALF OF TAYLOR**
16 **WOODROW?**

17 A. Yes. I am authorized as an agent of Taylor Woodrow to testify on behalf of that
18 entity.

19 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE ARIZONA**
20 **CORPORATION COMMISSION ("COMMISSION")?**

21 A. No. This is my first time.

22 **Q. HAS TAYLOR WOODROW BEEN GRANTED INTERVENOR STATUS**
23 **IN THIS CASE?**

24 Yes. The Commission granted Taylor Woodrow's Application for Intervention
25 on December 13, 2006.

26 **Q. PLEASE DESCRIBE TAYLOR WOODROW AND ITS BUSINESS.**

1 A. Taylor Woodrow is a public homebuilder and construction company based in the
2 United Kingdom with operations in North America, the United Kingdom, and
3 Spain. Specifically, Taylor Woodrow has been operating as a homebuilding and
4 land development company in the Phoenix metro area since 2000 (formerly as
5 Journey Homes). In 2006, Taylor Woodrow constructed over 1,200 homes and
6 developed several thousand lots in the Phoenix area.

7 **Q. WHY HAS TAYLOR WOODROW INTERVENED IN THIS**
8 **PROCEEDING?**

9 A. Taylor Woodrow is developing a master-planned community known as the
10 Sycamore Farms Development ("Sycamore Farms") which has approximately
11 120 acres and will contain approximately 610 lots (parcels 12 and 13 with the
12 Sycamore Farms PAD). Sycamore Farms is located in the Certificate of
13 Convenience and Necessity ("CC&N") of Arizona-American Water Company,
14 Inc.'s ("Arizona-American") Agua Fria Water District and has entered into
15 agreements with Arizona-American with respect to the provision of water service
16 to Sycamore Farms. Additionally, Taylor Woodrow is looking into the potential
17 development of other master planned communities in the Agua Fria District and
18 will be dependent upon Arizona-American to provide water service. Taylor
19 Woodrow (or other builders that have purchased some of the 610 lots from Taylor
20 Woodrow) expects to spend approximately \$5.2 million related to the
21 provisioning of water service for Sycamore Farms (hook-up fees, onsite
22 distribution lines, offsite infrastructure – wells, lines, etc.). Therefore, Taylor
23 Woodrow is directly and substantially impacted by the proposed increase in the
24 water facility hook-up fees ("Hook-Up Fees"), as well by the other issues that
25 have subsequently been raised in this proceeding.

26 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**

1 **PROCEEDING?**

2 A. Given that Taylor Woodrow is directly and substantially impacted by the issues
3 that have been raised in this proceeding, the purpose of my direct testimony is to
4 set forth Taylor Woodrow's position with respect to some of those issues for the
5 Commission to take into consideration in determining this matter.

6 **Q. WHAT ARE THE ISSUES THAT YOU WILL DISCUSS IN YOUR**
7 **TESTIMONY?**

8 A. The issues that I will discuss herein are as follows:

9 1. Hook-Up Fees that have already been paid under Arizona-
10 American's existing tariff.

11 2. The need for the construction of a surface water treatment plant
12 ("Plant") and the provision of assured water supply during construction which can
13 also offset the cost of the higher Hook-Up Fees.

14 3. The possibility of a moratorium by Arizona-American if there is a
15 delay in the construction of the Plant.

16 **Q. PLEASE DISCUSS TAYLOR WOODROW'S POSITION REGARDING**
17 **THE PROPOSED HOOK-UP FEES.**

18 A. Although the proposed increase of the Hook-Up Fees is substantial, Taylor
19 Woodrow understands the importance of the expeditious construction of the Plant
20 in the Agua Fria Water District in order to serve future developments other than
21 Sycamore Farms. However, Taylor Woodrow has already paid to Arizona-
22 American over \$500,000 for Hook-Up Fees pursuant to the existing Commission-
23 approved Arizona-American tariff (for 250 of the 610 lots). Additionally, Taylor
24 Woodrow (or other builders that have purchased some of the 610 lots from Taylor
25 Woodrow) has spent (or will spend) over \$4.7 million towards the construction of
26 other back-bone infrastructure and onsite improvements necessary for water

1 service to Sycamore Farms that will also provide regional benefits to Arizona-
2 American.

3 Taylor Woodrow does not object to the recommended increases in the
4 Hook-Up Fees set forth in the October 27, 2006 Staff Report so long as the final
5 order of the Commission expressly states that to the extent Arizona-American has
6 received payment for Hook-Up Fees under the existing tariff, if and when a new
7 tariff becomes effective, Arizona-American may not charge the difference
8 between the existing Hook-Up Fee and the new Hook-Up Fee as a condition of
9 receiving service, regardless of whether Arizona-American has provided a meter.¹
10 Further, Arizona-American should be precluded from unilaterally refunding
11 Hook-Up Fees paid by an applicant for water service under the existing tariff in
12 order to later charge the higher Hook-Up Fees under the new tariff.

13 **Q. HAS ARIZONA-AMERICAN RESPONDED TO THIS POSITION?**

14 A. Yes. On November 6, 2006, Taylor Woodrow filed comments in this docket that
15 set forth this position. On November 13, 2006, Arizona-American filed a
16 response indicating that it did not object to inclusion of express language in the
17 final order with regard to this issue.

18 **Q. HAS ANY OTHER PARTY IN THIS PROCEEDING EXPRESSED AN**
19 **OPINION ON THIS ISSUE?**

20 A. Yes. CHI Construction Company, Courtland Homes, Inc. and Trend Homes, Inc.
21 have also filed comments and testimony in this docket essentially requesting that
22 the same clarification regarding the pre-payment of Hook-Up Fees be included in
23 any final order of the Commission.

24 **Q. IN ITS FILED COMMENTS, MARICOPA WATER DISTRICT ("MWD")**

25 ¹ Although Taylor Woodrow has already paid to Arizona-American its Hook-Up Fees Arizona-American
26 has only "set" 20 meters to date.

1 HAS ARGUED THAT IF IT BUILDS THE PLANT, IT WOULD NOT BE
2 NECESSARY FOR ARIZONA-AMERICAN TO CHARGE THE HIGHER
3 HOOK-UP FEES. WHAT IS TAYLOR WOODROW'S POSITION ON
4 THIS?

5 A. Taylor Woodrow is not taking a position on which entity should build the Plant.
6 For Sycamore Farms, Taylor Woodrow has been required to provide potable
7 water to serve the needs of our development and, therefore, the construction of
8 the Plant will only benefit future developments.

9 Q. IF THE COMMISSION WAS TO GRANT ARIZONA-AMERICAN'S
10 APPLICATION AND ALLOW THE HIGHER HOOK-UP FEES IN
11 ORDER TO FUND CONSTRUCTION OF THE PLANT, WHAT ARE
12 YOUR RECOMMENDATIONS?

13 A. If the Commission determines that Arizona-American should build the plant and
14 use the Hook-Up Fees as essentially the financing vehicle to do this, the
15 Commission should: 1) require Arizona-American to construct the Plant as
16 expeditiously as possible so as to address the anticipated future water needs of its
17 customers in the Agua Fria Water District and to monitor such construction
18 through Commission-mandated compliance filings; 2) carefully monitor the
19 collection of the increased Hook-Up Fees to ensure that Arizona-American does
20 not collect such increased fees any longer than is necessary to finance
21 construction of the Plant; 3) make any necessary adjustments to Arizona-
22 American's rates and charges in subsequent filed rate cases; 4) order Arizona-
23 American to identify an interim water supply to ensure that there is an adequate
24 water supply in the Agua Fria District until such time as the Plant is constructed
25 and on-line; 5) to the extent that an assured water supply has been procured either
26 through an interim water supply agreement or developer provided wells, order

1 Arizona-American to set meters upon customer request; and 6) to the extent
2 Arizona-American can identify an interim water supply, order Arizona-American
3 to suspend its requirement that developers must also spend additional money to
4 drill additional wells as a condition of receiving service.

5 **Q. WOULD YOU PLEASE ELABORATE ON THIS LAST POINT?**

6 A. Yes. Currently, Arizona-American does not have an adequate supply of water in
7 the Agua Fria District to meet customer demand for new developments. This is
8 the primary reason it is seeking authority to build the Plant so it can use surface
9 water to meet customer demand. In the meantime, because of the lack of water in
10 the Agua Fria District, Arizona-American has imposed what is essentially a
11 moratorium on new development unless the developer is willing to bring the wet
12 water to Arizona-American by drilling wells that meet potable water standards.
13 Developers have had no choice but to bear these additional costs if they want to
14 have water for their projects. These costs are in addition to other backbone
15 infrastructure and Hook-Fees that developers are already obligated to pay. I
16 believe that if Arizona-American is going to charge the higher Hook-Up Fees in
17 order to build the Plant which will provide a water supply for the future, and
18 Arizona-American has secured an interim source of water while the Plant is under
19 construction, there would not be a need for these additional wells and developers
20 would not have to bear the cost of drilling wells to provide a water source.

21 **Q. IF THE COMMISSION WAS TO DENY ARIZONA-AMERICAN'S**
22 **APPLICATION IN FAVOR OF MWD BUILDING THE PLANT, WHAT**
23 **ARE YOUR RECOMMENDATIONS?**

24 A. If the Commission determines that Arizona-American should not build the Plant
25 and that MWD should, since the Commission does not have jurisdiction over
26 MWD, the Commission should condition its decision to deny Arizona-

1 American's application on MWD's agreement to enter into interim water supply
2 agreement(s) with Arizona-American within 30 days of the decision whereby
3 MWD would agree to be available to supply water until it brings the Plant on line.
4 Moreover, should MWD subsequently not build the Plant, it would still be
5 obligated pursuant to these agreements to continue to supply water until such time
6 that Arizona-American (or some other entity) builds the Plant.

7 **Q. WITH RESPECT TO YOUR SUGGESTION THAT ARIZONA-**
8 **AMERICAN BE ORDERED TO ENTER INTO AN INTERIM WATER**
9 **SUPPLY AGREEMENT AND SET METERS, HASN'T TAYLOR**
10 **WOODROW RECENTLY ENTERED INTO SUCH AN AGREEMENT**
11 **WITH ARIZONA-AMERICAN?**

12 A. Yes. And we very much appreciate Arizona-American's and MWD's willingness
13 to do this. However, at this point in time, this is a five year agreement whereby
14 we are still obligated by the end of the five years to provide potable wells to meet
15 the demand of our developments.

16 **Q. WOULD YOU PLEASE COMMENT ON THE ISSUE OF A**
17 **THREATENED MORATORIUM IN THE AGUA FRIA DISTRICT IF**
18 **THERE IS A DELAY IN THE CONSTRUCTION OF THE PLANT?**

19 A. Yes. First, as I stated above, given Arizona-American's constrained water
20 resources, it has, in effect, already imposed a moratorium on water service for
21 new developments if the developer does not provide the wet water to Arizona-
22 American at its expense. As discussed more fully above, Taylor Woodrow
23 believes that it is within Arizona-American and MWD's power to remedy this
24 problem and to remove this threat by simply entering into an interim bulk sale
25 water agreement whereby MWD will supply Arizona-American potable water
26 until such time that the Plant is built.

1 If however, the parties are unable or unwilling to do this, Arizona-
2 American should not be permitted to institute a moratorium with respect to new
3 water service for a customer who has supplied the water source to Arizona-
4 American and otherwise pays all applicable tariffs. Moreover, to the extent a
5 developer provides the water source to Arizona-American, Arizona-American
6 should be required to use such source to supply the needs of that development
7 before being permitted to use such supply for other customers.

8 **Q. WHAT WOULD BE THE IMPACT IF A MORATORIUM WAS**
9 **INSTITUTED?**

10 A. If a new service moratorium was imposed in the Agua Fria District, it would have
11 a chilling effect on development until such time as problem was resolved.
12 Moreover, even after the moratorium was lifted, the negative implication of such
13 a moratorium would linger well beyond that point. There are millions of dollars
14 that have already been invested to develop areas within the Agua Fria District and
15 a moratorium would impact existing development activity and contractual
16 relationships, as well as the money that has already been invested and is planned
17 to be invested in the future in this area.

18 **Q. DO YOU HAVE ANY CLOSING REMARKS?**

19 A. Yes. It is important to understand that that in reality, there is no "water shortage"
20 in the Agua Fria District as there is an adequate water supply. Arizona-American
21 holds the CC&N to provide water to its utility customers. However, Arizona-
22 American does not currently have the necessary water resources to meet the
23 future demand of its customers in this area. To address this deficiency in current
24 capacity, it has required developers to provide it with new wells. Yet, Arizona-
25 American is seeking authority from this Commission to build the Plant in order to
26 utilize surface water as an additional water source to meet future demand. MWD

1 has wells that can provide potable water. However, MWD is not authorized to
2 provide public utility water service within Arizona-American's certificated area.
3 Therefore, what we have here is one party that is obligated to provide utility water
4 service to the public but has a current shortage of wells and another party that has
5 the wells and water resources but cannot directly use those resources to supply
6 potable water to the public.

7 If Arizona-American and MWD would work together to address the water
8 issue in the Agua Fria District, there would be sufficient water to meet demand
9 while the Plant is being constructed. Moreover, developers would not have to
10 bear the redundant expense of being required to drill additional wells for Arizona-
11 American while also paying higher Hook-Up Fees to finance construction of the
12 Plant. Taylor Woodrow, therefore, encourages the Commission to do whatever it
13 can through this proceeding to facilitate a resolution of this problem.

14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 **A.** Yes, thank you.
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